



Bank of Canada Rate Announcement

September 7 2022

Bank of Canada hikes 75 basis points, signals more to come

The [Bank of Canada](#) increased its policy rate in line with market expectations this morning with another large hike of 75 basis points to reach 3.25 per cent. This was the highest since January 2008. Moreover, the Bank clearly stated that more hikes are forthcoming given problematic inflation trends, with only the question of size to be determined. Quantitative tightening is also ongoing.

Today's decision noted current global events, including ongoing supply chain challenges, the war in Ukraine and COVID-19 shocks on global growth and prices. High inflation has triggered rate increases among central banks and contributing to slowing growth and volatile commodity prices including declines in oil and lumber prices.

Headline CPI inflation has slowed due to gasoline prices. That said, the Bank emphasized that core inflation rose and ranged from 5 per cent to 5.5 per cent in July and price pressures have broadened, specifically among services, while short-term inflation expectations rose. Addressing the Q2 GDP, the statement highlighted strong growth in consumption and investment, albeit with mortgage rate hikes curtailing housing market activity. The Bank sees persistence of excess demand in the economy and labour markets with slowing growth in H2 amidst global headwinds and higher interest rates.

The Bank was clear in its intent to hike further, stating that *"Given the outlook for inflation, the Governing Council still judges that the policy interest rate will need to rise further"*. The next question is how large of hike will be appropriate. As we re-assess, given the size of today's increase, a hike of 50 basis points to 3.75 per cent in October is likely.

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